Rating Update

October 11, 2023 | Mumbai

D F M Foods Limited

Update as on October 11, 2023

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors:

- Significant improvement in scale of operation by more than 30% marked by higher regions other than north.
- Revival in operating margins or EBIDTA levels more than 5% backed by increase in scale of operations and leading to increase in net cash accruals.

Downward factors:

- Any decline in the scale of operations by more than 20% or deterioration in market position of company.
- Continued lower profitability levels leading lower than expected net cash accruals.
- Any significant debt funded capex or stretch in working capital cycle impacting financial risk profile and liquidity of the company.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from D F M Foods Limited (DFM) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Company

DFM started as a division of Delhi Flour Mills Pvt Ltd as a diversification measure, was incorporated in its current form in 1993 in Delhi. In February 2020, 73.95% of the stake was acquired by a US based private equity firm, Advent International, through its company AI Global Investments (Cyprus) PCC Ltd.

DFM is engaged in the business of manufacturing, selling, and marketing of packaged foods such as ready-to-eat packaged snacks, mainly corn-based extruded snacks and namkeen's. DFM's products profile consists of 18 distinct product variants and sells it under the brand of 'CRAX', 'CURLS' and 'NATKHAT'. It has two manufacturing facilities located in Uttar Pradesh (Ghaziabad and Greater Noida) with the total capacity of the company at 48,400 M.T. per annum.

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CRISIL Ratings

Rating Rationale

March 27, 2023 | Mumbai

D F M Foods Limited

Ratings downgraded to 'CRISIL BBB/Stable/CRISIL A3+ '

Rating Action

Total Bank Loan Facilities Rated	**Rs.100 Crore**
Long Term Rating	**CRISIL BBB/Stable (Downgraded from 'CRISIL BBB+/Stable')**
Short Term Rating	**CRISIL A3+ (Downgraded from 'CRISIL A2 ')**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank facilities of D F M Foods Limited (DFM) to '**CRISIL BBB/Stable/CRISIL A3+'** from 'CRISIL BBB+/Stable/CRISIL A2.

The ratings downgrade reflects deterioration in the business risk profile with significant drop in operating margin, owning to increased marketing expenses towards brand building and go-to-market expansion resulting in lower-than-expected cash accruals in 9MFY23. DFM has reported operating margin (EBIDTA) of -6.61% (Rs. -30.51 crore) during 9MFY23 from -0.36% (Rs. -1.49 crore) in 9MFY22 as it had incurred selling and marketing expenses of more than Rs.58 crore in 9MFY23 to penetrate its presence in large value packs segment and diversify its geographical reach. Despite continuous huge marketing spends over the last six quarters, company still generates more than 78% revenue from North Indian market. However, ramp-up of operations from new territories and large value packs, resulting in improved operating income and revival in profitability will remain key rating sensitivity factors. Operating profitability is expected remain negative for full year FY23 as marketing expenses are likely to keep the margin constrained for the near to medium term. DFM has reported revenue of Rs.461 crore in 9MFY23 at an against Rs.412 crore in 9MFY22. Revenue is expected to be in the range of 590-600 crore for the full fiscal 2023.

Rating downgrade also factors deterioration in the financial risk profile with interest coverage of -5.29 times and net cash accrual to total debt of -0.16 times and liquidity of the company has declined in liquid funds from Rs.88 cr. in March 22 to Rs. 51.04 cr. as on Sep 2022.

The ratings also factor DFM's established market position, marked by wide distribution network and strong brand image, efficient working capital management. These strengths are partially offset by susceptibility to risks of volatility in commodity prices, Exposure to intense competition and Product concentration in the revenue profile.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position marked by wide distribution network and strong brand image**: DFM has strong brand image and large distribution network of over 1,500 dealers. Historically, the company operates mainly in North Indian States (Uttar Pradesh, Delhi, Haryana, Punjab, Himachal Pradesh and Rajasthan); however, it has increased its presence in West and East India in recent years and entered the South Indian market as well.
  Company has a strong market presence in the extruded snacks segment with major presence in the northern region. DFM plans to penetrate areas other than north India through increase in marketing initiatives to ensure higher presence in rural and urban regions, and addition of ecommerce and modern trade channel to market itself. However the impact of marketing to penetrate into the regions other than north will remain the key monitorable.

- **Efficient working capital management**: DFM has a negative working capital cycle, which is reflected in minimal reliance on short-term working capital debt. Because of fast movement of its products in the market and the relatively short shelf life of food products, DFM maintains inventory of 15-25 days. Furthermore, the inventory is against confirmed purchase orders from dealers and the company takes advances for such orders. Debtors are comfortable owing to the strong brand presence and better bargaining power. Gross current assets were comfortable at 74 days as on March 31, 2022 and are projected at less than 60 days for FY23 driven by nil credit period offered to dealers and the low inventory policy. The working capital cycle for full fiscal FY23 is expected to be in the similar range of 70-80 days.

Weaknesses:

- **Susceptibility of operating margin to volatility in commodity prices.:** The key raw materials (edible oil, pulses, flavours, corn meal and packaging material) account for over 60% of cost. Their prices depend on geo-climatic conditions, international prices and the domestic demand-supply situation. Hence, profitability remains susceptible to fluctuations in raw material prices or inflationary pressures. Though, owing to strong brand equity, several cost-control measures opted by the management and grammage reduction in the products offered, DFM was able to maintain its gross margin of 35-40% till fiscal 2022 and is expected sustain the same during FY23 as well. However, owing to significant increase erupt in marketing expenses to increase its presence in regions other than north India, operating margin declined during fiscal 2022 and 9MFY23. Revival in profitability will remain key rating monitorable factor over medium term.

- **Exposure to intense competition:** The readytoeat food industry is highly fragmented owing to low entry barriers such as minimal capital requirement. Some of the organised players such as Haldiram Manufacturing Company Ltd, Bikanerwala Foods Pvt Ltd, Balaji Wafers Pvt Ltd, PepsiCo, and ITC Ltd operate at pan-India level, with strong brands and established and well-diversified marketing networks. Such players operate on a much larger scale and have a varied product mix, apart from *namkeen* products. Though DFM offers traditional *namkeens* as well, the revenue contribution from this segment has been low over the years owing to intense competitive pressure from the numerous regional/unorganised and large, organised branded players.

- **Product concentration in the revenue profile:** DFM operates mainly in the corn-based extruded snacks segment, wherein different products namely Rings, Curls, Fritts and Natkhat cumulatively contributes 70-75% to the top line, exposing the company to risks related to product concentration. However, DFM has made consistent efforts to reduce this risk, as reflected in decline in contribution of Rings to 29% in fiscal 2022 from 84% in fiscal 2017. Further, the company launched potato chips (other than corn-based snacks) under the brand, Crax, into the northern market and plans to expand its reach to rest of India as well. Continuous efforts to diversify its product profile and reduce concentration on few products should improve the market position; these will be key rating monitorables over the medium term.

Liquidity: Adequate

The cash credit limit of Rs. 40 cr. was utilised at just around 50-60% for the 12 months through Jan 2023. Cash accruals in 9MFY23 are at negative Rs. 22.9 cr. and expected to be negative Rs. 15-20 cr. for full fiscal 2023 against the repayment obligations of Rs. 18-23 cr. The cushion in the bank lines and liquid funds of ~Rs. 51 cr. (as on Sep 2022) will support the repayment over the medium term. Current ratio was declined to 0.89 times on March 31, 2022.

Cash and bank balance along with marketable securities were high at around ~Rs.51 crore as on Sep 2022; this balance, however, is expected to be rationalised to fund the higher marketing expenditures and other obligations in the near term.

Outlook: Stable

CRISIL Ratings believe DFM will continue to benefit from established market position of its brands and its efficient working capital cycle.

Rating Sensitivity factors

Upward factors:

- Significant improvement in scale of operation by more than 30% marked by higher regions other than north.
- Revival in operating margins or EBIDTA levels more than 5% backed by increase in scale of operations and leading to increase in net cash accruals.

Downward factors:

- Any decline in the scale of operations by more than 20% or deterioration in market position of company.
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About the Company

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Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	556.57	523.3
Reported profit after tax	Rs crore	-4.45	28.70
PAT margins	%	-8.85	5.47
Adjusted Debt/Adjusted Net worth	Times	0.60	0.45
Interest coverage	Times	-1.47	5.22

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity Levels	Rating assigned with outlook
NA	Long Term Loan	NA	NA	Sep-27	61.19	NA	CRISIL BBB/Stable
NA	Bank Guarantee	NA	NA	NA	13.81	NA	CRISIL A3+
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL BBB/Stale
NA	Bill Discounting	NA	NA	NA	15	NA	CRISIL A3+

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	86.19	CRISIL A3+ / CRISIL BBB/Stable		--	13-12-22	CRISIL BBB+/Stable / CRISIL A2	15-02-21	CRISIL A2+ / CRISIL A-/Stable		--	Withdrawn
			--		--	24-08-22	CRISIL BBB+/Stable / CRISIL A2		--		--	--
			--		--	02-08-22	CRISIL BBB+/Stable / CRISIL A2		--		--	--
			--		--	25-01-22	CRISIL A2+ / CRISIL A-/Negative		--		--	--
Non-Fund Based Facilities	ST	13.81	CRISIL A3+		--	13-12-22	CRISIL A2	15-02-21	CRISIL A2+		--	--
			--		--	24-08-22	CRISIL A2		--		--	--
			--		--	02-08-22	CRISIL A2		--		--	--

			--		--	25-01-22	CRISIL A2+		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	13.81	Punjab and Sind Bank	CRISIL A3+
Bill Discounting	15	HDFC Bank Limited	CRISIL A3+
Cash Credit	10	HDFC Bank Limited	CRISIL BBB/Stable
Long Term Loan	2.83	Punjab and Sind Bank	CRISIL BBB/Stable
Long Term Loan	0.18	HDFC Bank Limited	CRISIL BBB/Stable
Long Term Loan	12.19	HDFC Bank Limited	CRISIL BBB/Stable
Long Term Loan	17.61	HDFC Bank Limited	CRISIL BBB/Stable
Long Term Loan	5.46	Punjab and Sind Bank	CRISIL BBB/Stable
Long Term Loan	22.92	Punjab and Sind Bank	CRISIL BBB/Stable

This Annexure has been updated on 27-Mar-23 in line with the lender-wise facility details as on 09-Mar-23 received from the rated entity

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Fast Moving Consumer Goods Industry
Understanding CRISILs Ratings and Rating Scales

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